RESOURCES COMMISSION

INTERIM REPORT

INTERIM REPORT OF THE RESOURCES COMMISSION

I. INTRODUCTION

The Resources Commission was appointed by Government by G.O.MS. No. 636/91/Fin. dated 20th November 1991. The composition of the Commission was enlarged on 30th January, 1992 by the nomination of Shri T. M. Thomas as a Member. The Commission held its first meeting on 5th December, 1991. Unlike earlier Commissions and Committees, it was decided not to appoint any staff specially for the work of the Commission. The Chair man and each member of the Commission undertook to study and make draft proposals on different subjects like taxes, non-tax revenue, subsidies, resource for social services especially education and health, recovery of loans and advances and arrears of dues, remittances of NRIs and resource use for purchases and inventories. It was also decided that special studies, that may be necessary would be got done through competent professionals or institutions using the plan provision for "Surveys and Studies" under the State Planning Board. The State Government was requested to issue early orders on the decision of the full State Planning Board at its first meeting held on 31st October, 1991 delegating powers to the ViceChairman, State Planning Board for undertaking the studies.

The Commission also issued public notice through the Press inviting suggestions and proposals from interested members of the Public. All the Secretaries to Government, Heads of Departments and Chief Executives of the Public Undertakings, were addressed individually by the Chairman. Letters were also sent by the Chairman to over thirty eminent Economists in the country seeking their valuable advice in the field of resource mobilisation.

A large number of letters have been received from individual Officers and members of the Public as well as from eminent men. Memoranda have also been received from Trade Associations. All these are being studied and wide ranging discussions are being held by the Chairman/Members of the Commission with the concerned persons. Meanwhile, after giving proper publicity through the press, the Commission held sittings at Kannur (28-1-1992) and Calicut (29-1-1992) to meet the District Collector and Departmental Officers, retired Central and State Government Officers, Advocates, representative of Business, Industry and Trade Associations as well as individual members of the Public from the Districts of Kasargode, Kannur, Kozhikode and Wayanad.

The Commission held two further meetings at Trivandrum on 25th January 1992 and 28th February 1992. These were in addition to the large number of meetings held separately by the Chairman and individual members. The Commission will hold further sittings in other district headquarters, consider the memoranda and letters in detail and submit a comprehensive report later. While the work of the Commission is handicapped by the inability to undertake the special studies and surveys that are found to be essential for making substantial recommendations, on a preliminary consideration of the issues involved, the Commission is submitting the present interim report to the Government in time for the Budget for 1992-93.

II. BACKGROUND

The need to look into the State Government's resources position has arisen as a result of the increasing revenue deficit from year to year during the last 5 years. The non-plan revenue deficit reached a high figure of Rs. 372 crores in 1990-91, necessitating the diversion of this order of amount from funds borrowed in the name of the plan. The year also ended with an overall closing deficit of Rs. 100 crores, which is the amount owned to the Reserve Bank of India. In view of this imbalance in the resources of the State Government, treasury restriction had to be imposed during 1991-92 for most of the days. The revenue deficit during the current year is expected to be a much larger figure than that of last year, indicating a larger diversion of borrowed funds for revenue expenditure. The revenue deficit is expected to be not less than Rs. 500 crores notwithstanding a sharp reduction in plan expenditure. In the discussions with the Planning Commission held in November-December 1991 on the resources position for 1992-93 and the Eighth Five Year Plan (1992-97), it was estimated that the balance from current revenues during 1992-93 will be Rs. (—) 861 crores The State's Annnal Plan for 1992-93 has been finalised at Rs. 913 crores, at the meeting held between the State Chief Minister and the Deputy Chairman, Planning Commission on 17th January, 1992. The plan size has been fixed on the assumption that an amount of Rs. 400 crores would be raised by the State Government through economy measures, better collection and additional resources so that the deficit in the balance from current revenues would be reduced by nearly half.

The calculations of resources for 1992-93 made in the context of the plan discussions did not take into account the additional burden arising out of food subsidy introduced by State Government (Rs. 180 crores in a year) and the deterioration in the collections under Small Savings Scheme. The need for additional resource mobilisation during the coming year has to take into account all these dimensions. The amount of additional resource mobilisation will have to be much higher than what was assumed at the time of the plan discussions, if the approved plan of Rs. 913 crores is to be implemented infull and the expenditure cuts and payment restrictions made this year are to be avoided. Needless to say that there is no scope whatsoever to increase the size of the plan through the annnouncement of ad hoc schemes and programmes. This point is mentioned here because, unlike in the Government of India, a practice has developed in the State of announcing development schemes in the budget speech over and above the approved plan. When resources have not been found even for implementing the approved plan, such a practice seriously distorts priorities and delays timely and efficient implementation of development schemes. It has been objected to by the Planning Commission also, time and again, in view of these reasons. If any additional measures are announced involving ex penditure on the non plan side, it is obvious that resource mobilisation has to be increased further to meet the additional liability.

The recommendations in this interim report are made by the Commission in the light of these considerations. Measures that could be adopted in 1992-93, and on which the Commission could arrive at some conclusions at this preliminary stage, are briefly dealt with in the following Sections.

III. TAXES

(A) SALES TAX

Everyone who has addressed or met the Commission has been of the view that there is large scale evasion of sales tax. While the subject will be looked into in detail by the Commission during the coming months, the following points demanding immediate attention emerged during the wide ranging discussions that the Commission had with senior deparmental officers, retired officers, present and past-government pleaders who have dealt with sales tax, representatives of dealers and associations as well as members of the public.

1) There is no need for any major revision in the rates of sales tax, but the working of the department requires to be completely reorganised and revitalised, with a view to ensuring timely and appropriate assessments, clearance of arrears and conduct of cases before tribunals and courts; and

2) The sales Tax Act, Rules and Notifications have to be throughly revised taking into account the judicial pronouncements over the years, the changes that have been brought about in related laws, like that on income tax and the growth in business involving diverse goods.

A thorough review of the provision of sales tax law would have to be done by a competent body of persons with judicial background and experience in the conduct of sales tax cases and the administration of the sales tax department. It is suggested that a such body may be appointed immediately.

As regards the proposals for simplification and rationalisation of the measures to the extent to which they can be suggested at the present stage and the measures for toning up of the work of the department, the Commission would make the following recommendations.

III. A.I. Simplification and Rationalisation of Tax Structure:

(i) Compounded Tax Rate for the Lowest slab:

At present, any dealer whose turnover in a year is Rs. 50,000 has to register himself, in view of the rising prices, the number of dealers with turnover between Rs. 50,000 and Rs. 1,00,000 has gone up over the years and considerable amount of time and effort of the department is being spent in assessing and collecting small amounts from these dealers. There is also widespread complaint of harassment. In order to save the time and effort of the department and to avoid harrassment, it is suggested that tax from dealers in the bracket between Rs. 50,000 and Rs. 1,00,000 be collected at a flat rate of Rs. 250 a month except when one is dealing entirely in exempted goods. Questions relating to the commodities and items being sold and such other matters would be raised as an arguments against the collection at a flat rate. However, it is felt that the rates suggested would be accepted as reasonable by all dealers when compared to the requirement of having to submit their returns and assessment.

(ii) Simplified assessments of dealers with turnover not exceeding Rs. 5 lakhs in a year:

Simplified assessment is available to the dealers under Section 74 of the Act subject to the following conditions:

(a) The tax due for the year shall not be below 25 percent of the latest completed assessment, and

(b) no offence for suppression of turnover should have been detected.

(c) As per Rule 18A , Simplified return is permitted from those also who admit 10 percent tax more than in previous year.

These provisions have not attracted simpliaed assessment to any significant extent. About 40 percent of the staff of the department is engaged in collecting revenue from these dealers. Though the department does not have data regarding the number of assessees in different slabs of turn over, the tax collected from the assessees in this slab is expected to be not more than five percent. The Commission would, therefore, suggest that 'Simplified Assessment' may be made really so by adopting the following procedure.

(1) In respect of those whose total turnover is between Rs. one lakh and Rs. 5 lakhs, the return submitted by the Assessee may be accepted; and (2) every year five percent of the dealers may be chosen through random selection at the level of the Deputy Commissioner for detailed verification and check up. In order to avoid any harrassment, it is important that the method of selection is such that there is no subjective element whatsoever. If any suppression or falsification of accounts is found during such detailed verification, the accounts of the dealer for a period of 5 years could be reopened for assessment.

The procedure suggested means that the assessees would have to keep account but the return submitted by them would be accepted except for random checks, such a procedure, in addition to releasing a large number of the departmental staff for other more important work, will also give considerable relief to businessmen and traders.

(iii) Merger of additional sales tax with basic sales tax

As a further measure of simplification and reduction of work in the department, it is suggested that the additional sales tax now levied at 25 per cent of the basic tax be merged with the latter and the rate of tax on each item fixed after rounding off to a suitable number. This will incidentally lead to increase in collection of tax as well as increase in revenue from surcharge by 25 per cent. The net increase in revenue as a result of this rationalisation can be expected to be not less than Rs. 15 crores in a year.

(iv) Surcharge and turnover tax

Both these belong to the same *genre* in that they are not expected to be passed on to the consumers. The trading community has been demanding the withdrawal of both these levies, but they are important as a source of revenue and are in vogue in a number of States. The levy of surcharge has been up held by the Supreme Court. A very large number of cases relating to the turnover tax are pending before the courts and an authoritative decision of the Supreme Court is yet to be given. The question of rationalisation of turnover tax and surcharge can be considered later. For the time being it is suggested that no change need be made in the provisions of surcharge.

As regards turnover tax, it is levied at 4 per cent on petroleum products, 2 per cent on IMFL and per cent on pepper, dried ginger and arecanut. Turnover on rubber is exempted. On other goods, turnover tax is collected at the rate of 2 per cent when the turnover exceeds Rs. 50 lakhs on the exempted turnover of scheduled goods other than the goods coming under second and third schedules.

It is suggested that a graded system of turnover tax at low rates may be introduced for scheduled goods other than those for which specific rate of turnover tax is separately fixed and other than those exempted from the tax. The graded system could be on the following lines.

(1) On a turnover of Rs. 25 lakhs by below Rs. 50 lakhs .. ¼%

(2) Do. of Rs. 50 lakhs and below Rs. 250 lakhs .. ½%

(3) Do. above Rs. 250 lakhs and below Rs. 500 lakhs .. ¾%

(4) Do. above Rs. 500 lakhs .. 1%

In addition to the items mentioned above which special rates of turnover tax have been prescribed, it is suggestd that specific rates of turnover tax be prescribed for gold, silver and platinum jewellery and for hotels and establishments serving cooked food.

As regards jewellery at present a purchase tax of one per cent is levied on gold, silver and platinum ornaments. Both because of the considerable volume of illegal trading in gold (it is expected to be considerably reduced in the light of the latest announcement regarding import of gold) and the reluctance of consumers to pay tax on gold jewellery, very few bills for the sale of these items are said to be issued. It is generally agreed that evasion of tax is quite considerable in jewellery trade. Considering the large scale evasion of ax in this trade, it is suggested that the system of purchase tax may be given up and a turnover tax may be levied at a special rate of 4 per cent. Simultaneously the sales tax can also be abolished.

Cooked food is completely exempted from sales tax other than those served in star and bar attached hotels. At the same time, purchase tax under Section 5A is levied on goods purchased without bills. The hoteliers have been complaining of harrassment in the levey and collection of purchase tax. It is suggested that levy of purchase tax on cooked food be abolished and in its place a turnover tax introduced as shown below:

(1)	For turnover up to Rs. 5 lakhs	.. Nil
(2)	For turnover from 5lakhs to Rs. 10 lakhs	.. 1%
(3)	For tunover Rs. 10 lakhs and above	.. 2%

The modifications in turnover tax suggested are expected to yield an additional revenue of the order of Rs. 20 to 25 crores.

(v) Double-point Levey on selected goods

The single point levey, which was introduced as a measure of simplification has led to large loss of revenue in the case of a number of goods. While a comprehensive review of the schedules of the Act should await more detailed study, it has been pointed out to the Commission that in the case of goods like household appliances and manufactures, in which the increase in value at the second and subsequent sales is considerable, some method should be adopted to collect tax on the higher values. One method suggested was levy tax on the increase in value at each point of sale. Such a method will be quite cumbersome and complicated. It is suggested that the amount of basic tax plus AST, rounded to the nearest interger, could be split into two parts roughly in the ratio of 2:1, to be levied at the point of first and last sale respectively. Such a double point levey could be introduced in the case of refrigerators, water coolers, AC. plants (machinery and components), washing machines, sewing machines, typewriters, clocks, timepieces and watches, mica laminated sheet, particle board, cement and white cement. On a rough estimate, additional revenue of about Rs. 5 crores can be realised.

For every different reasons related to the quantum of illicit trade, it will be advantageous to levy sales tax at two points—first and the last—in the case of Arrack and IMFL also. At present, sales tax at 50% plus AST 12½ % is levied on Arrack at the first point. As stated in the next section, considerably larger volumes than what is released from the distilleries is actually sold, but completely escape duty and tax. It is suggested that the overall rate may be lowered to 40% and 10% at the first and last points of the sale respectively. At the point of sale to the consumer, the option of paying a compounded tax at 20% of the kist amount may be provided for. On IMFL and beer also, the overall rates may be reduced considering the rates in neighbouring States, from 75% and 50% to 60% and 40% respectively and split between the points of first and last sale. On a conservative estimate, the addtional revenues will be about Rs. 30 crores.

(vi) Sales tax on work contracts

Despite the Supreme Court decision in the Builders Association of India's case and the consequent amendment to the State Act, a large number of old cases is pending before the High Court and stay is in force. A huge amount of revenue is locked up. As a number of earlier assessments will have to be revised, a practical course will be to file a fresh counter-affidavit before the full bench of the Court and seek guidelines of the court in accordance with the decisions of the Supreme Court. The assessments can be finalised in accordance with the guidelines. Any further amendment to the law can also be made in accordance with the guidelines in order to settle this complicated issue. Additional revenue of Rs. 10 to 15 crores can be collected during 1992-93, is expeditious stages are taken.

(vii) Tax on Video-lending

Tax on Video-lending was introduced in 1984, but collection is poor compared to the visible increase in the trade in recent years. In the interest of case of collection, it is suggested that a compounding provision may be introduced as follows:

		Corporation Area	Municipal Area	Panchayat Area
1.	Number of cassettes up to 50 used for lending	Nil	Nil	Nil
2.	No. of cassettes from 50 to 100 (in rupees)	2000	1500	1000
3.	No. of cassetees for every 100 cassettes above the first 100 (Rs.)	2000	1500	1500

A revenue of about Rs. 2 crores can be realised.

(viii) Enhancement of Registration Fee:

The registration fees under the General Sales Tax Act in force from 1987 are as follows:

(a)	When the turnover is less than Rs. 3 lakhs	.. Rs.	50
(b)	When the turnover is more than Rs. 3 lakhs and less than Rs. 10 lakhs	.. Rs.	100
(c)	When the turnover is above Rs. 10 lakhs	.. Rs.	250

In view of the increase in cost of administration, the registration fees may be revised as follows:

(a)	When the turnover is below Rs. 1 lakh	.. Rs.	50
(b)	When the turnover is between 1 lakh and 5 lakhs	.. Rs.	100
(c)	When the turnover is between 5 lakhs and Rs. 10 lakhs	.. Rs.	250
(d)	When the turnover is above Rs. 10 lakhs (as well as CST Registration in all cases and exhibition sales of of casual traders and non-resident dealers)	.. Rs.	1000

An additional revenue of about Rs. 2 crores can be expected.

(ix) Arrears of Revenue

According to the statement furnished by the department, the arrears of Sales tax at the end of November 1991 was Rs. 257 crores, of which about Rs. 160 crores were under stay by tribunals, government and courts. The figures of arrears have, however, to be reconciled. A number of measures have to be taken to collect as much of the arrears as possible, and these are covered in the following section.

(2) *Revialisation of Sales tax Administration:*

The following measures are suggested for revitalising the working of the department:

(i) *Data Collection, Analysis and Communication*

In the other Southern States, computerised data collection is being done and up-to-date information is available. The department does not now have even the type of information that it used to have in earlier years. For example, turnover-wise distribution of number of assessees and commodity--wise distribution of tax, which are vital data for any king of analysis, are not available with the department. A computerised system has been sanctioned, but is implementation is being delayed. The system should be fully established within the next few months.

The data should be analysed and compared with those of other States by constituting a Research and Analysis wing in the Commissioner's office.

The data relating to taxes, court decisions and the results of analysis have to be communicated to officers through monthly communications in the form of bulletins. The attempt to prepare a comprehensive Manual remains a project which goes on forever and is 15 years behind schedule at any point of time.

(*ii*) *Finalisation of Assessments*

Though assessments are being finalised in accordance with the quotas fixed for different officers, they relate largely to minor cases. The more important cases continue to be pending and in many such cases assessments have not been finalised for a period of 10 years or more. According to the statments furnished by the department, as on November 1,1991, 97,339 remanded and D2 cases, 42081 nil assessment cases and 1,12,383 other assessment cases were pending. It is absolutely essential to draw up a time bound programme of finalisation of assessment, especially those relating to the 5000 dealers from whom more than 80 per cent of the taxes is collected. The department should draw a schedule for the year 1992-93 and adhere to it.

(iii) *Improvement in the quality of assessment*

It was repeatedly pointed out to the Commission that the quality of asessment has gone down over the years. This is one of the principal reasons for tax collection not keeping pace with the growth in business and the rise in prices of all levels. The quality of assessment required sharp improvement. The following measures are suggested for immediate implementation.

(a) *Training*

Inservice training programme has to be arranged at all three levels of:

(1) Appellate Tribunal and Appellate Authorities;

(2) Commissioner and Senior Officers and

(3) Inspecting and Assessing Officers.

These may be arranged immediately in consultation with the High Court. The expenditure involved is very small indeed. A more comprehensive programme of training can be drawn up as and when the Institute of taxation studies fully established. Training should one of its main tasks.

(b) *Revamping the Intelligence wing*

The intelligence wing has to be completely revamped and strengthened so that investigation and inspection of important cases are made effective. An ABC analysis of assessments is necessary for making detailed inspection and keeping proper vigilence and supervision over major cases.

(c) *Check-posts*

One of the most important aspects to be looked into in improving the quality of assessment is the working of Check-posts and the timely utilisation of check-post declarations. Proper vigilence and supervision has to be exercised over check posts constantly by forming a Central squad under an Assistant Commissioner for surprise inspection of check posts. The check post declarations have be correlated with the dealers' accounts during the course of the month itself, by Senior Inspecting Officers. At present this is done only at the time of assessment. Since assessments are greatly delayed there is considerable scope for manipulation of accounts. While computerisation is essential and should be undertaken on a time bound basis on important check posts as an urgent measure, timely correlation should be made at least in the case of major dealers. A list of such dealers should be available with the check posts. For cross verification of inter-state and branch transfers it would help forms C,F&H are required to be submitted in four copies, one copy being forwarded to the officer and two copies to the office of origin. This would require amendment to the Central Sales Tax Rules. This may be taken up with the Government of India.

(x) Clearence of Arrears:

(*a*) *Stay Orders by the Government*

There is no provision in the law for issue of stay orders by government. In view of the need to collect as much of the tax due as possible, the government may decide that no stay will be given by them and the parties have to approch only the prescribed statutory authorities for obtaining stay.

(*b*) *Cases before Appellate Authorities*

The pendency of cases before Appellate Authorities is very high. The departmental Appellate Authorities are essentially revenue officers, in that there can be no appeal against the indecision by the department. They have to look into accounts in detail and dispose of the appeal. According to knowledgeable persons, there is much to be desired as regards the manner in which appeals are being disposed of. In addition to the training mentioned above, government may lay down clear cut targets for Appellate Authorities also in 1992-93.

(*c*) *Disposal of Cases before the Tribunal*

Nearly 20,000 cases are said to be pending with the Appellate Tribunal looking up large amounts of revenue. From time to time, one bench or other is not functioning for want of a member. Currently, Ernakulam bench is not functioning for the last 3 months or so. The following steps may be taken to ensure that at least half the pending cases should be disposed of in 1992-93. Vacancies of the members may be filled up without delay. It is impossible to get competent Chartered Accountants on a remuneration of Rs. 3,000 a month. The honorarium has to be increased. To avoid loss of time the services of the officers of Income Tax Department could also be used as was the case some years ago. It may be ensured that every member of the tribunal disposes of atleast 75 appeals a month. According to knowledgeable persons this would not constitute a heavy workload at all.

(*d*) *Disposal of Cases pending in Courts*

Thousands of cases are pending in courts and some of them for long number of years. The effective arrangements that were in vogue in 1970's have disappeared over the years. It is suggested that the following steps may be taken immediately for securing expeditious disposal of cases:—

(1) A tax wing may be formed in the Advocate General's office with an additional Advocate General (under the overall supervision of the Advocate General to handle all tax and revenue cases from the State of admission until final hearing and filing of appeal, if any. Tax laws are interrelated and taxation has become a complicated branch of modern law. Expertise has to be built up among government pleaders in handling taxation and revenue cases.

(2) The system of monthy meetings between senior government pleader dealing with taxes (additional Advocate General now proposed) with the Secretary to government for Taxes, Commissioner for commercial taxes, Deputy Commissioner, Law and Deputy Commissioners connected with important cases should be revived immediately. This system produced the maximum result in the early 1980s and seems to have been given up in recent times. Not a single meeting has been held during this year to discuss and decide upon the course of action in respect of the large number of cases pending before the High Court and Supreme Court.

(3) *Overall Target for* 1992-93.—In the plan resource estimates, an overall target of Rs. 1195 crores has been assumed as the collection under sales tax during 1992-93. Taking into account the additional realisation due to the measures suggested in this Report as well as the results of the time bound campaign for disposal of cases and clearance of arrears and as a result of the measures for the improvement of quality of assessment and the concentration on major cases, the Commission is of the view that a target of Rs.1400 crores should be fixed for the department for 1992-93. This should be well within the reach of being achieved. There will be an additional realisation of Rs. 205 crores over the plan resource estimates.

(B) STATE EXCISE DUTIES

(1) Arrack

It was authoritatively stated before the Commission that the quantity of Arrack actually sold by the contractors is anywhere from 5 to 20 times more than the quantity supplied from the distillaries. It was pointed out that there is a colossal loss of revenue due to Government and an illustration was given to prove the same:

Total kist to the Government on arrack in 1990-91	..	Rs. 120 crores
Total arrack supplied by Government in 1990-91	..	150 lakh litres
Maximum selling price of arrack from shops	..	Rs. 50/litre
Total turnover	..	150x50 Rs. 75 crores

If, the quantum supplied by the distillaries alone had been sold, the total turnover would have been only Rs. 75 crores this year, whereas the *kist* paid is Rs. 120 crores, indicating that the turnover is alteast over Rs. 150 crores.

It was suggested that a system by which the contractors are free to purchase spirit from outside the State and bring it in should be followed. It is, however, seen that legal objections have been raised to such a procedure. The Commission would examine the suggestion in greater detail. For the present, it is noted that the Government have already finalised the Abkari Policy for 1992-93, with the difference that auction will be held for individual shops and not for groups as before. This in itself is expected to yield substantially higher amount as *kist*.

The Commission was informed that though this is a good sugar year and 68 lakh litres of molasses were alloted to Kerala from different States, only 36 lakh litres were utilised because of the failure to place orders. The excise duty and sales tax that could have collected have been lost, while as stated above. very much larger quantity has presumably been obtained by the contractors.

As soon as the allotment is made by the Government of India for 1992-93 a rate contract could be finalised for suppliers in each State. As the supply is expected to be good next year also, the full quantity available be utilised first and further quantity obtained from Government of India, which would be sanctioned in view of easy availability. In other words, the object of Government and the Department should be to supply as large a quantity as possible from the distallaries, instead of delaying the decisions on of orders.

(2) **IMFL**

The Government have already increased the bar licence fee o Rs. 3 lakhs. No change is suggested in the excise duty or import duty on IMFL.

No change is suggested in excise duty and import duties on IMFL and beer.

As regards export duty, the rate presently in force in Kerala is much lower than in Tamil Nadu and Karnataka, even though over 60% of IMFL required by the State Beverage Corporation has to be imported from outside Kerala based distillaries while the distillaries in Kerala export IMFL to other States. This applies in the case of Beer also. By altering the rate of export duty, the local producers can be induced to sell more beer in Kerala.

It is suggested that export duty may be levied at the following rates on IMFL and beer.

IMFL	Rs. 15 per case
Beer	Rs. 3 per case

(3) **Overall target of collection for 1992-93**

In the plan resource estimates for 1992-93 an amount of Rs. 204.60 crores was assumed under State Excise duties. This includes Rs. 120 crores by way of kist on Arrack. In view of the change in the Abkari policy, atleast Rs. 160 crores is expected by way of kist in 1992-93. If larger supply of arrack is made from distillaries, there will be higher realisation of excise duty. A higher volume of sales of IMFL and beer is expected in view of the reduction in sales tax. In view of all these, the revenue under State excise duties in 1992-93 should be not less than Rs. 260 crores. This would result in an additional revenue realisation of Rs. 55 crores.

(C) MOTOR VEHICLES TAX

In the case of Motor Vehicles taxation also, departmental officers and informed members of the public pointed out areas of large scale evasion of tax. The three most important areas that were brought to the notice of the Commissioner are:

(1) The large scale use of stage carriage through the State in connection with political and organisational rallies, marriage and social functions and religious festivals and meetings and tours to pilgrim centres without paying any tax and without being apprehended for any violation of their permits, and

(2) The use of a large number of tempo vans, truckers and other small vehicles (which are contract crriages), as stage carriages which carry passengers, without paying an any tax.

Both these are common sights in the State and obviously fulfil a 'felt need' (since such use is now illegal, there is no insurance cover for accidents to the vehicles or passengers). There is no reason why the State revenue should not be argumented by recognising that needed.

(3) A large number of notor vehilces of all types come to the State from other States carrying passengers for domestic tourism and for visits to pilgrim centres. Vehicles carrying goods and which do not have national permits also come to the State in large numbers. Since they use the transport infrastructure in the State, a reasonable levy for such use will be in order.

The following suggestions for additional resource mobilisation are made:

(i) Grant of Special Permits

Stage carriages seeking to operate as contract carriages in connection with political and other organisational rallies, religious, social festivals and functions, outside their permitted routes may be given special permits for such purposes for not more than 5 to 7 days a month. In addition to the fee of Rs. 100 prescribed in the motor vehicle rules, a tax of Rs. 400 per day for such trips for large carriages and Rs. 250 for medium sized carriages may be imposed. The special tax receipts should be prominatly displayed on the wind screen of the vehicles. A heavy fine should be imposed on vehicles not obtaining this special permit.

On a rough estimate an amount of Rs. 10 to 15 crores could be realised by issuing such permits.

(ii) Issue of stage permits to Templos and other vehicles:

In hilly areas or interior places where normal buses cannot ply, stage carriage permits may be given to tempos, taxi cabs, truckers and jeep, so that the needs of the travelling public can be met and at the same time revenue can be realised by government. Complaints of harrassment can also be avoided.

Though it is difficult to make a precise estimate, the additional revenue can be expected to be in the range of Rs. 5 to 8 crores.

(iii) Entry (Toll) tax on vehicles from outside the State

An entry tax on vehicles coming into the State such as contract carriages, taxi cabs, light commercial vehicles, may be levied at the following rates:

(i)	Taxi cabs, maxi cabs, LCV's	Rs. 50 per visit
(ii)	Medium and heavy vehicles including buses and truckers	Rs. 100 per visit

Such a levi is in force in many of the North Indian States. Gujarajt has introduced in this year. An additional revenue of Rs. 3 to 4 crores can be expected.

(iv) Other Measures

In addition to the above three new measures, the Commission would suggest the following to increase revenue under Motor Vehicle Tax.

(1) The tax on stage carriages in Kerala may be brought on a par with the neighbouring States. An additional revenue of Rs. 8 crores can be expected.

(2) Permits may be given at border check posts itself for contract carriages and stage carriages visiting stations outside the State.

(3) There is large accumulated arrears of 'Service Verification and finalisation may be made in early 1992-93. The Department may also be given the facilities of a few more additionl vehilces and granted relaxation in the use of fuel. Simultaneouly, targets for collection may also be clearly fixed.

Overall target for 1992-93

The receipt assumed for motor vehilces tax in the estimate of plan resources is Rs. 107 crores. As a result of the measures suggested in this Report, the overall target could be fixed at Rs. 145 crores. The increase in may be made in early 1992-93. The Department may also be given the facilities of a few more additional vehicles and granted relaxation in the use of fuel. Simultaneously, targets for collection may also be clearly fixed.

(D) STAMPS AND REGISTRATION

(1) **Fair Value of Land for registration of sale deeds**

Large scale transfer of land was taking place in the State especially in the context of Gulf boom, and despite soaring prices of land the receipt by way of stamp duty and registration fee was not buoyant. Undervaluation of land for purposes of sale deeds had become chronic. A number of States in the country had introduced a system of fixing fair value of land for purposes of registration of sale deeds, Shri Zacharia Mathew, Member, Board of Revenue was appointed as a one man Commission to study the matter. His report pointed out glaring instances of undervaluation. The matter was under consideration of Government for over 3 years and finally the Stamp Act was amended in 1988. After an elaborate exercise of fixing the fair value of land in all the Districts., the amended Act was brought into effect from 12-11-1990, so as to enable fix ing a minimum fair value for the lands in the entire State for the purpose of determining the stamp duty payable on the sale etc., of the lands. The relevant provisions in the Act are, however, seen deleted with effect from 11-1-1991 as a result of which Government is losing a huge amount by way of stamp duty registration fees.

In the neighbouring State of Tamil Nadu, the Government have fixed the market value of each and every survey field and this value is exhibited at important places for the information of the public. There is, therefore, no scope for undervaluing the lands for the purpose of registration. Further, in Tamil Nadu, the value of the lands is being revised periodicaly, once in every 5 years. It will be in the interest of the Government to adopt a similar procedure in Kerala State also. It is unforutate that a long over-due reform happended to be introduced at a time of failing prices due to the Gulf war. Perhaps the values fixed were also unrealistic in some cases.

The Commission is of the firm view that the provision relating to the minimum value of lands should be reintroduced into the Kerala Stamp Act at the earliest. The Collectors may be asked to look in to the complaints that were received and fix more reasonable rates, where necessary. A range of values could also be given in the case of large survey numbers. If all this is done without delay, it will be possible for the State government to realise an additional amount of at least Rs. 50 crores every year from by way of Stamp duty and Registration fee.

(2) **Arrears**

The I. G. of Registration has indicated that a large number of cases (2.3 lakhs) involving undervaluation of documents from 1986-87 are to be finalised. The amount that can be realised on settling these cases is reported to be Rs. 60.52 crores. Government may take expeditious action to create special squads as recommended by the I.G. of Registration in order to settle as much of these cases as possible so that at least an amount of Rs. 20 to 25 crores can be realised in 1992-93.

(3) **Overall target for 1992-93**

The resources assumed for 1992-93 in plan estimate is Rs. 142 crores. Assuming about Rs. 25 crores under fair value and another Rs. 25 crores from arrear collection, a total of Rs. 50 crores could be additionally collected during 1992-93. Thus, the overall target of receipt from stamps and registration for 1992-93 should be fixed at Rs. 190 crores.

(E) LAND REVENUE

The Commission is studying in detail all questions connected with resurvey, land tax, plantation tax and related issues with a view to examining weather a land holding tax as suggested by Dr. K. N. Raj sometime back could be implemented in this State. For the time being, the Commission would like to make the following two recommendations.

(1) Conversion of Kuthakapattom land into free holds

Most of the lands given on lease under 'Kuthakapattam' are very old cases and there is hardly any possibility of their being resumed. It is suggested that as many land as possible may be got assigned during 1992-93. There is no ground for giving concessions inland value. In the normal course proposals for assignments emerging from the Taluk level are disposed of at government level after the lapse of several years. If resources are to be raised quickly such inordinate delays should be anvoided. The Commissioner for Land Revenue may be asked to undertake a special drive for this purpose during 1992-93. Suitable delegation of powers may also be given to the Commissioner so that all cases need not come to the government.

(2) Forest lands leased for cultivation several years ago

In some parts of the State like Wayanad and nearby areas, forest lands were leased out for cultivation under the 'Grow More Food Campaign' 40 to 50 years ago. The lessees of these lands are paying tree tax and plantation tax since 1962. There is no reason, whatsoever, why such lands should kept leaseholds even now. They may be assigned to the lessees on realisation of appropriate land value. The Commissioner of Land Revenue may be asked to prepare a detailed report in consultation with the concerned Collectors and the work may be completed in 1992-93 and a good amount retained.

(3) Forest land under encroachment prior to 1-1-1977

It is learnt that about 28000 ha. of forest land under encroachment before 1977 have been jointly verified by the revenue and forest authorities and that regularisation of such encroachment is expected to be approved by Government of India in the immediate future. Appropriate land value will have to be realised from the assignees at the time of assignment as even 'Kudikidappukars' were required to pay for the land under the Land Reforms Act. It is a major concession that the Governments is showing to encroachers by assigning the land in their favour despite the damage done to ecology and there is no reason why land value should not be realised from all of them. Timber standing in such lands could also be extracted and sold by Government.

(4) Overall Target for 1992-93

It is difficult to estimate resources that can be realised by the above measures in 1992-93. It will depend upon the speed of the operation, the land values fixed and the number of instalments given. It is suggested that the Department should work towards a target realising at least Rs. 10 crores during 1992-93.

(F) FORESTS

The Commission notes that it was decided to augment resources from Forests by resorting to selection felling, However, it was finally given up but an equivalent amount of Rs. 25 crores is being raised by expediting timber working and disposing the materials in stock. On the basis of the discussion with the Departmental Officers and after considering the suggestions received from some members of public in hilly areas, the Commission would suggest the following measures for augmenting forest revenues in 1992-93:

(1) Expediting timber working

It is learnt that timber working is going on in full swing and that 30000 cubic metres of timber and 4.5 lakh poles will be available for sale next year. This should lead to larger revenue receipts during 1992-93.

(2) Extraction of Rosewood from Ex-Servicemen's Colony, Ambalavayal

The Forest Department has estimated 17000 cubic metre of Rosewood in the Ambalavayal Ex-Servicemen's colony. The extraction and sale of this quantity of rosewood, even after payment of compensation for damages to crops, would be Rs. 60 to 70 crores. However, the extraction should be done in a phased manner to realise the maximum price. For 1992-93, the phasing may be such as to realise at least Rs. 10 crores.

(3) Overaged Eucalyptus Plantations

Eucalyptus plantations formerly belonging to M/s Harrison Malayalam Plantations and subsequently taken over as 'vested forest' at Wayanad are understood to be mature for extraction. The area is said to be about 1000 ha. A case is pending in the Supreme Court on this matter. Expeditious steps may be taken to get the case disposed of so that the valuable timber is not lost.

(4) Collection of lease rent

Large area of land have been leased out by the Forest Department to individuals and private and government companies and Corporations. There are heavy arrears of lease rent especially from Public Sector Corporations like Plantation Corporation of Kerala, State Farming Corporation and Oil Palm India Limited. The arrears from these three companies alone would amount to Rs. 11 crores. As these undertakings are running on profit a programme of payment by them must be worked out immediately. A special drive should also be conducted to collect arrears of lease rent from all other lessees.

(5) Revision of Lease Rent

The lease rent fixed in some agreement is several years old and is very low. All such cases may be taken up for immediate review.

In Tamil Nadu there is a system of classification of leases like:

Forest Land lease out	for plantation crops
Do.	for agricultural crops
Do.	for purpose other than the above and fixing different lease rates for the same. Similar fixing of lease rent may be attemped here also.

(6) Assignment of land on lease

Recently, the Government of India has delegated powers to State Government to clear proposals for diversion of forest land for non-forest purposes upto 20 ha. It should be possible to convert small areas under lease for long years on free hold on realisation of land value.

(7) Revision of fees

Various fees charges by the Department such as those timber transport and could be suitably enhanced. The Chief Conservator of Forests has informed the Commission that proposals are being made to the Government.

(8) Overall target for 1992-93

As against the expected receipt of Rs. 72 crores for 1991-92, the plan resources estimated for 1992-93 is Rs. 64 crores. As a result of the implementation of the above measures it will be possible to reach a target of Rs. 90 crores during 1992-93. Thus the additional revenue realisation would be of the order of Rs. 26 crores.

(G) INTEREST RECEIPTS

In the Plan resource estimates for 1992-93, the interest receipts have been assumed as Rs. 25.70 crores. This is a very important item of revenue. However, no attention has so far been given to estimate the interest actually due to Government on the various outstanding loans. The outstanding loans by the end of of 1991-92 would be well over Rs. 1000 crores. On a rough estimate the interest receipts should not be less than Rs. 120 crores. It is against this figure that a receipt of Rs. 25.70 crores, mentioned above has been assumed. The Commission has asked for detailed information on outstanding loans from different sources as at the end of 1991-92 and the different amounts of interest due in 1992-93. This information would be available only early in the next financial year. However the huge shortfall in interest nearing to about Rs. 100 crores a year has to be made up immediately to some extent.

The highest amount of interest is to be received from the Kerala State Electricity Board, but hardly any amount is being received every year The arrears of interest payable to Government as on 31-3-1992 will be Rs. 205 crores. The interest payable to the State Government by Kerala State Electricity Board 1992-93 is Rs. 52.49 crores. 1992-93 is the year in which the KSEB will have the maximum operating surplus of Rs. 115 to Rs. 120 crores. After paying interest to the institutional creditors the Board will have a net operating surplus of Rs. 56 to 60 crores. Due to severe resources crunch this year, the Board is in arrears of payment to National Thermal Power Corporation etc., for about Rs. 40 crores. Even so, the Board should make a payment of at least Rs. 25 crores by way of interest next year.

The question of electricity duty collected from the consumers had not been considered separately earlier under taxes, because the amount of Rs. 48 crores estimated under this is almost the same as the amount in the plan resource estimates. This is pointed out here in order to emphasise that the full amount of Rs. 48 crores due in 1992-93 should be recovered. The total receipt from the Board should not be less than Rs. 73 crores in 1992-93 (25+48). The year 1992-93 will be a cash rich year for the Board and Government should get the maximum amount during that year.

(H) KERALA STATE ROAD TRANSPORT CORPORATION

(1) **Performance of KSRTC and present Status**

The financial position and the performance indicators of Kerala State Road Transport Corporation are given below:

KSRTC

		(*Rs. crores*)
1.	Accumulated loss as at the end of 1990-91 (even after writing off dues of Rs. 83.5 crores during the perod from 1980-81 to 1986-87 by the State Government)	148.00
2.	Estimated loss during 1991-92	43.00
3.	Projected loss during 1992-93	61.00
4.	Operating loss estimated in 1991-92	22.00
5.	Projected operating loss in 1992-93	45.00
6.	Impact of wage revision during 1991-92 given efiect from February 1990	21.92

7.	Arrears to be paid following wage revision for the period February 1990 to August 1991		30.00
8.	Payments due to the State Government (as on 1-4-1992)		
	(a) Repayment of loan	45.00	
	(b) Interest payment	36.85	
	(c) Motor Vehicle Tax	12.63	94.48
9.	Interest payment due to Central Government		4.00
10.	Performance Indicators		

		Kerala	Tamil-Nadu	Karna-taka	Andhra Pradesh
(a)	Fleet utilisation (%)	80	96	87	91
(b)	Vehicle utilisation (Km. per day per on-road bus)	283	315	294	300
(c)	Staff bus ratio (on road)	11.00	7.50	7.67	8.80
(d)	Staff cost per Km (Ps)	402	185	186	208
(e)	Staff productivity (Km. per employee per day)	25	45	41	33
(f)	Steering hours	5.50	8.00	8.15	8.00
(g)	Bus fare per Km. (weighted average)	14.60	13.26	15.43	14.80

11. Revenue collection and revenue expenditure KSRTC

	1965 (Ps.)	1991 (Ps)	Percentage increase
(a) Revenue collection (Ps. per passenger km.)	3	13	333.43
(b) Revenue expenditure (Ps per passenger km.)	94	834	787.23

The stark facts about KSRTC should be clear from the above statement. The operating loss itself has started increasing from Rs. 11 crores in 1989-90 and 1990-91 to to Rs. 22 crores in 1991-92 and will be as high as Rs. 45 crores in 1992-93. The Corporation is now conducting services only by increased overdues to suppliers of fuel and spare parts including tyres and tubes . As the overdues cannot continue indefinitely the Corporation will grind to a halt within a month or two unless drastic steps are taken.

As may be seen from the statement given above, KSRTC is worse off when compared to the neighbouring States in respect of EVERY performance indicator, despite the fact that the fare is more or less the same.

The most important problem of KSRTC is overmanning at Highest wage levels and with lowest work norms. Unless this problem is tackled frontally no improvements can be made.

The Commission would suggest the following measures for adoption by Government.

(2) **Emergent measures to be undertaken**

1. Noticed under section 19 of the Industrial Disputes Act may be given to the Trade Unions for modification of the agreements on grounds of financial non-viability and consequent imminent stoppage of operations. The notice should be for adoption of work norms, staff productivity and on road staff-bus ratio in accordance with those in neighbouring States. Reduction in the number of holi-days and on road staff-bus ratio in accordance with those in neighbouring States. Reduction in the number of holidays and delinking from KSR should also be included in the notice. This operation should be proceeded with deliberaation and firmness. The public are entitled to this, since they are asked to pay higher fares.

2. Immediate revision of fares by an average of 15% Fare may be revised automatically if and when fuel prices are increased.

3. KSRTC has about 12,000 employees above the age of 45. All these persons could be given the option of retirement on getting immediate payment of an amount equal to three months emoluments for every remaining year of service, in addition to the pension that will be due to them. If even a third of persons in this age group accepts the offer the staff-bus ratio would come down.

4. The Corporation has on its rolls (paying full salary) for about 1600 invalid persons to whom compensation has already been paid. All of them may be retired on full pension irrespective of their years of service along with other terminal benenfits. A suggestion under consideration for giving employment to one person from each of these families will be self defeating, as overmanning will not be tackled.

(3) Other Measures for putting the Corporation on a sound footing.

1. As in the case of Tamil Nadu, and that is proposed to be done in Delhi Transport Corporation. K.S.R.T.C. may be converted into a company. There is nothing to be gained in retaining it as a statutory corporation in as much as the Government of India has stopped making capital contribution and will not also resume it in the near future in view of the changes in economic policy. The State Government's loan capital contribution of Rs. 48 crores and the overdue loan of Rs. 45 cores put together to be made the new equity of the new transport company

2. Simultaneously , the arrears of interest due to Government amounting to Rs. 37 crores may be converted into a loan. The arrears of motor vehicles tax is to be collected in equated instalments along with the current dues.

3. Within the next two years K.S.R.T.C. may confine itself to inter-district routes, long distance trunk route and inter-state services only. This has, in any case become necessary because of the 1988 amendment of the Motor Vehicle Act, under which permits in non-nationalised routes have to be given freely on application.

4. The Trivandrum city service could be retained with K.S.R.T.C for the time being. It should be possible for the corporation to bear the loss in city transport on the surplus in long distance routes.

5. If the students concessions and other subsidised travel concessions have to be continued the State Government will have to pay the amount involved to KS.R.T.C.

6. K.S.R.T.C. has for too many bus stations, 66 in number. The number could be brought down to well below 30 and substantial amount could be realised by sale of assets including land.

(4) Effect on 1992-93 resources.

If the emergent measures are taken as proposed, the projected operating loss can be avoided and the negative contribution of Rs. (—) 61 crores assumed in the plan resources estimates can be brought down substantially, even after the payment against voluntary retirement.

(1) REDUCTION IN GOVERNMENT EQUITY

Over the years, the State government has invested in the equity of (i) Statutory Corporations. (ii) State and Central Government Companies (iii) Other Joint Stock Companies and (iv) Co-operative Banks and Societies. According to the Finance Accounts for 1988-89 (the latest year for which the Accounts have been published), the number of institutions, the amount invested, the, percentage of government shares and the dividend received in each of the four types of institutions were as follows

Type of institution	Number	Amount invested (Rs. rores)	Percentage of government shares	Dividend (Rs. lakhs)
(1)	(2)	(3)	(4)	(5)
(i) Statutory Corporations*	2	10.62	49 to 51	Nil.
(ii) Government Companies:				
(a) Central Government Enterprises	5	5.75	Nominal to 5.11	6.00

* Does not include the K.S.E.B. and K.S.R.T.C. capital contribution to which is treated as loan.

(1)	(2)	(3)	(4)	(5)
(b) State Government Enterprises	75	314.78	51to1000	49.92
(iii) Other joint stock Companies	39	3.82	Norminal to 27.50	19.46
(iv) Co-operative Banks & Societies	Large Number	80.60	Nominal to	9.47
Total		415.57 crores		84.85 (lakhs)

The Commission is collecting the latest figures as on 1-4-1992. Since about Rs. 35 to 40 crores are invited as equity every year under the plan in statutory corporations and State Government Companies (Public enterprises) and Corporation, the total equity as on1-4-1992 is likely to be around Rs. 520 crores. The dividend receipt estimated for 1992-93 is Rs. 2.97 crores.

The quality of equity participation can be evaluated on two counts—One is appreciation of share value and the other is the quantum of divident . Appreciation of share value has taken place only in a handful of companies, the most important of which are the two central government companies CRL and FACT. The annual dividend, now around Rs. 2.25 crores, is less than half a per cent. A pattern of investment, which yields such dismally low returns is not justified on financial, economic or social grounds. The portfolio has to be examined critically and drastic steps taken.

(i) **Statutory Corporations**

These are the Kerala Financial Corporation and the State Warehousing Corporation. While the former has to continue until the Government of India reorganise the financial system. as regards the latter the better course is to let the co-operative system, own the state share of 50% of equity. This has to be examined in consultation with the Government of India. The State Government has invested over Rs, 1.50 crores in this Corportion.

(ii) **Government Companies**

(a) *Central Government Companies.*—The State Government owns 0–67% in FACT (contributed in 1948) and 5.11% in CRL (contributed in 1964/1988). The others are nominal The shares of these two companies have appreciated a great deal. It is suggested that the shares in FACT may be disinvested toally and those in CRL by half, An amount of Rs. 50 crores can be realised in 1992-93 by such reduction in equity.

(b) *State Government Companies.*—These account for the largest amount of equity investment by the State Government. The annual Review of their performance that will be released along with the budget will give the latest position. Except for a handful of firms the vast majority are losing and that too, heavily, Despite several reports, legislative and public criticism, the State Government has not been able to take steps to improve the performance of public enterprises. With the increased resources crunch faced by the government during the last few years, the government has found it impossible even to inject additional funds under rehabilitation/revival packages, with the result that sick units are becoming more so. If things continue like this, a stage will be reached in which they cannot be revived, as has already happened in 3 or 4 cases. A basic rethinking is necessary in accordance with the new Industrial Policy of the Central and State Governments in the interest of revival, attracting additional investment, generating employment and income and increasing the revenues of the state government. While promotional agencies, infrastructural agencies and those connected with the traditional industries and welfare activities may continue to be owned by government, there is no reason why manufacturing firms, plantations etc. should continue as government companies as none of them belong the reserved categories in the new industrial policy.

Government investment in industry had a historic role to play in the State, at a time when private investment was shy and local entrepreneurship was also lacking. It has played that role and several pioneering institutions have been set up. It is not the fault of the basic concept that government is here could not run them efficiently and profitably. Even so, the fact is that governments do act under compulsions of their own. Adherence to government ownership is no longer necessary. In fact, as stated above, it comes in the way of even revival and rehabilitation.

The new industrial policy of the State Government rightly observes inter alia:—

"Government involvement will be mainly in core areas like infrastructure, stragtegic industries and pioneer industries where private sector or joint sector involvment is not adequate.

An active policy of disengagement from other areas will be followed so that resources are made available for industrial expansion instead of blocking funds in specific undertakings."

It is suggested that government equity is as many of the State public enterprises as possible, (except those in the promotional, infrastructure, traditional industry and welfare sectors) may be reduced to 50% and below: by restructuring them. Apart from attracting funds for investment, it would generate immediate resources for the government. It would also be in line with the action being taken by the Central Government.

Experience world-wide has shown that such restructuring and reduction in government equity of public enterprises is a complex and time-consuming process, involving both policy and complicated financial aspects and working out of details in each and every case. It cannot be done as a part of the routine activity of the Secretariat. That is why, the Government of India have constituted a separate panel under the chairmanship of Dr. V. Krishnamurthy, Member of the Planning Commission to advice on the modalities(Public officers or private placements, the valuation of shares, the extent of reduction of equity in each case and the target clientele (financial institutions and banks, resident investors) NRIs, general public, employees and foreign institutional investors. It is suggested that State Public Enterprises Restructinring Board may be formed for the same purposes as these, under the chairmanship of a senior person, wellversed in Finance and Industry and with the Industries Secretary,Finance Secretary, Managing Director of KSIDC, a senior Chartered Accountant as members. The Bureau of Public Enterprise is may serve the Secreatariat of the Board. An institutional arrangement may be made in government for taking expeditious decisions on the recommendations of the Board. An illustrative list of enterprises which may be taken up for immediate restructuring is given in Annexure-2.

The unemployed in Kerala are the victims of poor performance and low returns from public investment. If more returns had been received and borrowed funds had not been diverted for revenue expenditure, more investment and consequent employment would have taken place.

Therefore, a percentage of the shares has to be given to those who are in receipt of unemployment allowance (in lieu of the allowance). They have a higher claim than the employees. The proposed Board may work out the modalities of this also.

Establishment of an Industrial Development Fund

In order that the funds realised by the sale of shares and re-structuring of public enterprises are not wholly used for current consumption of government, but are available for promoting industrial investment, an Industrial Development Fund may be formed statutorily. Fifty per cent of the proceeds of sale may be retained by government and fifty per cent credited to IDF. In 1992-93, the target for realisation from State undertakings may be Rs. ·100 crores. As already stated, Rs. 50 crores may be realised from sale of shares in central enterprises. Thus, Rs. 7 crores will be available for government and Rs. 75 crores for IDF in 1992-93. It is from the IDF that share capita contribution to KSIDC and KFC, as well as incentives for industries will be paid. Out-go from State budget will be less to this extent. The net gain to budgetary resources will be around Rs. 120 crores in all. All this would, of course, call for systematic and quick decision-making at government level, as is currently done in the Government of India.

(iv) Co-operative Banks and Societies

State Government investment in Co-operative banks and societies will now be over Rs. 100 crores. The institutions regulated by the Registrar of Co-operative Societies may be taken up for reduction of government equity in 1992-93. Investment in such banks and societies was Rs. 40 crores on 30-6-1990, as against the total equity of Rs. 224

crores in them (that is, government equity is about 20% in all). The investments were made over the years to promote Co-operative activity. Though the rules required that the equiry should be got retired by allotment to members, little progress has been made. The tendency has been to treat the government equity as a grant. The dividend received is a pittance—below Rs. 10 lakhs, but there is a vast staff (perhaps costing more) reconciling it in the office of the RCS.

It is suggested that atleast Rs. 20 crores worth of shares may be got retired in 1992-93. A parcticable course would be to transfer the shares at par value to the Apex Bank, leaving it to the Bank to transfer it to members of banks and societies.

(J) MUTUAL FUND

In the wake of the new industrial policy and the favourable reaction to it, instead of the Growth Fund under government as earlier contemplated and which will be a non-starter, a *MUTUALFUMD* may be floated to attract NRI funds also...The present policies of the Government of India permit this. Details will be worked out separately.

(K) RECEIPTS OF DEPARTMENTS

1' Education

Kerala State is proud of its achievement in literacy and education. About 29% of the State revenue receipts is spent on education, which is the highest in the country for major States. Nearly 10% of the State Domestic Product is being spent on education by government and private agencies put together. The most important problem that has arisen in the field of education is the sharp increase in salaries which accounts for over 95% of the expenditure. As a result, there is very little allocation or expenditure on items which are essential for ensuring quality. The steep fall in the quality of education, especially at higher levels, has caused widespread public concern. Remedial measures are urgently necessary to improve the quality of education in the State.

Education is free in the State upto and including the Pre-Degree stage. For the time being, the Commission is not addressing itself to the question of raising resources to meet at least a small part of the expenditure on free education.

It is a generally accepted principle everywhere that higher education should be self supporting. However, in our State the recovery of cost on higher education varies from 1% to less than 5% for different courses. In other words, Graduate, Postgraduate, Engineering and Medical education are also virtually free. This situation has arisen because, while the salaries have increased sharply during the last two decades, the tuition fees fixed in some cases four decades ago, continue unaltered. It is a trusim that the amount spent by students as pocket money is many times more than the tuition fees paid. It is also a truism that most students spend large sums on private tuition.

The Commission is of the strong view that the process of recovery of an increasing percentage of the cost on higher education (Degree course and above) should be initiated immediately. The Commission would make the following recommendations to save on unnecessary expenditure and raise additonal resources in the field of education:—

1. *School education:*

(i) Since the student strength is going down and a number of schools becoming uneconomic, the ban on opening of and upgrading of schools should continue:

(ii) According to the Education Department 485 schools are completely uneconomic. Of these, as many as 446 are Lower Primary Schools. All these schools must be closed from the beginning of 1992-93.

(iii) For improving quality, the Library and Laboratory fees in high schools being nominal may be increased to Rs. 15 and Rs. 30 respectively.

2. *Higher Education:*

It is suggested that fees may be so raised as to recover 10% of the cost in Degree and Postgraduate courses and 20% of the cost in Engineering courses. The order of the revised fees to be levied is given in Annexure 3. As regards soecial fees, at least Library and Laboratory fees may be increased substantially as given in the Annexure. This would enable each college to increase its facilities.

In the case of students who do not receive scholarships and who may need assistance, system of loans from banks may be worked out.

3. *Cost of Examinations:*

There is now a big gap between the expenditure on examinations and the receipts. There is absolutely no justification for this. At the same time the number of examinations in the State is much larger than elsewhere. A package under which the number of examinations is reduced while the fees are increased has to be worked out. Since the concurrence of the Universities is necessary for reducing the number of examinations, it is suggested that a Committee may be constituted under the chairmanship of the Secretary for Higher Education with the Vice-Chancellors Director of Collegiate Education and Controller of

Examinations as members to suggest a package of measures make the system of examinations financially self-supporting. The revised examination system may be introduced in 1992-93 itself.

4. *Effect on resources*:

Leaving aside special fees which will go to each institution, all the other measures suggested will together have a positive effect on resources of about Rs. 25 crores, which will be a good beginning in the field of education.

(K)2. Medical Education and Health Services

Hospitals:

Kerala is proud of its achievement in the field of health also, about 7% of revenue receipt is spent on health. In this field also the quality of service is fast going down as a lion's share of budgetary allotment is used on salaries. It was become impossible to keep up the supply of medicines and even ordinary hospital materials. It was stated authoritatively before the Commission that patients have produce even paper for writing prescriptions and printed O.P. chits are not available. The system of charging hospial services based on income declaration is not working. Measures have to be adopted to clearly define the responsibilities that Government can discharge at its cost and those for which people will have to bear the cost.

The Commission would suggest that the following measures may be adopted in 1992-93 as beginning:

(i) The services in health institutions below the District level should continue to be free and no charges need be levied.

(ii) Government will accept full responsibility to make availabile the hospital materials commonly used in the hospitals in addition to life saving drugs. Other costly medicines will not be stocked.

(iii) As an immediate measure, the following charges may be levied/increased in or to make a fair sums of money available the hospitals:—

		Medical College Hospital (Rs.)	*District Hospitals* (Rs.)
1.	Outpatient charges suggested valid for one month	5	3
2.	ECG	5	10
3.	X-ray	20	15
4.	Investigations:		
	(1) Routine	10	5
	(2) Detailed	20	5
5.	Operation charges:		
	(1) Major operation	350	250
	(2) Minor operation	150	100
6.	Labour room charges	150	100
7.	Intensive Care Unit charges	75	50
8.	Blood transfusion charges	75	50

Hospital need supply only milk (500 ml. per day) and bread to really poor patients. Canteens could be started in the hospital premises to supply other items of food on payment. The hospital committee should ensure quantity of food served in the canteens.

As regards introducing a charge on impatients, the Commission would study the matter separately and give recommendations later.

As special case, all the fees so collected may be allowed to be retained in the hospitals instead of forming past of the general revenues. This is sugggested so that the people are assured that the fees collected will be used then and there for improving the services and not for payment of salaries. It shall be the responsibility of a competent committee to be formed in each hospital by Government orders to utilise there funds as well as those that may be received through charity and donations, for maintaining the hospital premises, repairs of equipment and aids, supply of costly medicines to genuinely poor patients, making up for shortfall in supply of hospital materials etc.

Medical Education:

The gap between cost of education and fees realised is much wider in Medical education. During discussions, per student cost for MBBS course was indicated as high as Rs. 35,000 including related expenditure in hospitals. This is being looked into. This is irrational because those who get medical education are assured of some income after graduation unlike other graduates. Though the cost per student is much higher for Graduate and Post-graduate Medical education than in Engineering, the fees may be increased by the same order. The existing and suggested revised fees are given below follows:

		Existing fees (Rs.)	*Suggested revised fees* (Rs.)
1.	MBBS and other undergraduate courses	450	3,000
2.	Post Graduate	800	5,700
3.	Para medical	250	750

Effect on Resources:

Since the hospital charges will be realised and utilised by each institution Government's overall resources will not be augmented. However the quality of service will improve. As a result of the increase in Medical education there will be an additional revenue of about Rs. 2 crores.

(K) 3. Other Departments

There is considerable scope for augmenting revenue from various fees and other charges levied on the services offered by the State Government. Most of these fees were fixed a number of years ago, when the scale of operations of many of these Departments were significantly small. With the increase in the volume of activity and the cost of providing these services having increased substantially over the years, the Commission is of the view that the various fees and other charged levied by the Government Departments may be increased, both from the point of view of collecting additional revenue and also for providing better quality service.

The Commision would be undertaking a detailed study on the charges and fees levied by the Departments later. The Government in the meantime may raise some of the existing fees and rates charged by the Departments proposals for revision of some of which are already pending with them.

As an example, the possible increase in revenue from the facts collected by the Animal Husbandry Department for the service rendered by it, about which the Commission held detailed discussions with the officers of that Department, is given below:

1. *Artificial insemination*:

At present fresh Artificial Insemination (AI) is charged at Rs 10. Normally two more (repeat) A.I's in some case one, are required to be given for each cow. These repeat A.I's are carried out free, while the KLD Board has to be paid Rs. 13 for each doze purchased from it by the Annimal Husbandry Department. Not only that the first A.I. is subsidised by Rs. 3, the costs of the two repeat A.I's are entirely bone by the Animal Husbandry Department. During 1990-91 13.20 lakh A.Is' were carried out, of which 7.92 lakh were fresh 5.28 were repeat inseminations. Thus the Department had to near about Rs. one crore on this account in one year.

The Commission is of the view that the rate for A.I. may be raised to cover the full cost, and since the services of the Department is utilised, the insemination charges may be raised to Rs.15 for all insemination, including repeat ones.

2. *Runderprest preventive innoculation*:

A fee of Rs. 2 per animal is charged for the preventive innoculation to those brought to the State from outside. Over 8.6 lakh cattle enter the State every year. As this rate is fixed some years ago, the innoculation charges may be raised to Rs. 4 per animal in 1992-93.

3. *Treatment to canine and other diseases*:

At present Re. 1 as registration fee is charged for all kinds of animals brought to the District Veterinary hospitals and veterinary polyclinics for treatment. The medicines supplied by the veterinary hospitals are free of cost, while the expenditure of the Department has increased considerably over time. The 8 District veterinary centres and 51 polyclinics established by the Department are expected to act as specialised referal hospitals. The annual allotment of Rs. 50 lakhs for purchase of medium is too meagre, exposing the institutions to public criticism. In order that these veterinary hospitals are able to function as effective referal hospitals and to ensure adequate supply of essential medicines, the following charges may be levied.

(a) *District Veterinary Hospitals*

(i)	Pet animals (canine cases)	Rs. 10 per animal
(ii)	Large animals	Rs. 3 per animal

(b) *Veterinary Polyclynics*

(i)	Pet animals	Rs. 5 per animal
(ii)	Large animals	Rs. 2 per animal

(c) *Veterinary hospitals and Veterinary Dispensaries* Re. 1 per animal

Elephants if brought to treatment may be charged Rs. 150 informal in all types of veterinary institutions. All the above charges will be valid for one month. Poultry will be treated free of cost.

The above proposals are estimated to yield Rs. 3.40 crores additionally during 1992-93.

Proposals for similar revisions in fees and other charges levied by some of the Departments are pending with the Government. Early decisions on them as well as exercises in all departments will yield additional revenue of Rs 10 to 12 crores in 1992-93.

4. *Welfare Funds*

About 13 to 14 welfare funds have been started in the State. They cover the poorer sections of the population. These funds could play a greater role in looking after the education and health needs of their members and their families. Innovative group insurance and other schemes have to be introduced. The funds themselves could increase their resources through better financial management and investment of their surpluses. A detailed study of their financial management and their schemes is necessary. If proper steps are taken, the burden on state government resources can be reduced.

(L) FOOD SUBSIDIY

The Commission is studying in detail the entire braut of subsidies in the State. Meanwhile a very major item of subsidy has been introduced in the State recently by not increasing the issue price of publicly distributed rice, when the Government of India increased it in December 1991. The price is being retained at the same level for all sections of people irrespective of the income levels. The subsidy amounts to Re. 1 per kg. of rice. For the 1.50 lakh tonnes of rice distributed per month, the subsidy amount to Rs. 15 crores and for a full year the liability will be Rs. 180 crores. This is an additional expenditure taken on by the State Government after finalising the resource estimates for the Annual Plan 1992-93. Even excluding this liability the State Government is committed to raise additional resources of the order of Rs. 400 crores for funding the approved plan outlay for 1992-93. Given the resources crunch faced by the State Government and the need to reduce the revenue deficit, an across-the-board subsidy involving Rs. 180 crores a year is not justified. Its immediate purpose was to moderate the general rise in prices, which was taking place at that time. The Commission is of the firm view that this should be reviewed immediately and the subsidy made more rational. The Commission suggests the following modifications in the subsidy for 1992-93.

1. Targetting the Subsidy

The subisdy should be targetted. The Government of India is preparing a programme for assisting the poor families whose annual income is less than Rs. 12,000 with a view to quickly ameliorate the conditions of these families. Adopting that as a norm, the food subsidy should be confined only to such families whose income is less than Rs. 12,000 per annum. Such families will constitute at the most 40% of the total households in the State. This is rational and by adopting this norm the extent of subsidy could be restricted to about Rs. 72 crores per annum.

2. Special allotment of rice

The subsidy given to special allotment of rice through the Public Distribution System (PDS) should be withdrawn forthwith, this allotment should be charged at the enhanced rate. On withdrawing the subsidy on special allotment the total revised commitment as at item I will come down further.

3. A conscious decision needs to be taken not to increase the subsidy of food item distrubuted through PDS with every increase in the issue price of food materials by Government of India. Attempt should be to taper off the entire subsidy, and till then a mechanism may be so devised as to keep the subsidy element within 20% of the enhanced rate and also targetted towards the poor.

IV. CONCLUSION

1992-93 should be the year in which the rising trend of revenue deficits and diversion of borrowed plan funds for non-plan purposes is reversed decisively. It should be a year of *baisc budgetary reforms.* This Report is a humble input in that direction. The suggestions in the report will improve the state's resources for 1992-93 by about Rs. 800 crores, as summarised in the statement below:

Estimated Additional Revenues during 1992-93

(Rs. Crores)

		Assumed for plan Financing	*Additional Revenue Estimates*	*Total*
I.	**Tax Revenue:**			
1.	Sales Tax	1194.64	205.36	1400.00
2.	State Excise	204.59	55.41	260.00
3.	Motor Vehicles Tax	107.18	38.00	145.00
4.	Stamps and Registration	142.38	50.00	192.00
5.	Land Revenue	11.12	10.00	21.12
II.	**Non Tax Revenue:**			
1.	Forest	64.20	26.00	90.00
2.	Interest Receipts	25.70	25.00	50.70
3.	KSRTC	(—) 61.00	51.00	(—)10.00
4.	Dilution of Govt. equity	..	170.00	170.00
5.	Education	18.26	25.00	43.00
6.	Medical and Public Health	9.30	2.00	11.35
7.	Other Departments	..	10.40	10.40
8.	Reducation in Food Subsidy	..	120.00	120.00
	Grand Total	1716.42	788.17	2503.57

(V. RAMACHANDRAN)

Annexure I

GOVERNMENT OF KERALA

Abstract

RESOURCES—RESOURCES COMMISSION—CONSTITUTION OF A RESOURCES COMMISSION—ORDERS ISSUED

FINANCE (SECRET) DEPARTMENT

GO(MS) No. 636/91/Fin.

Dated, Thiruvananthapuram, 20th November, 1991.

ORDER

As announced in the Budget Speech in July 1991, Government are pleased to constitute a Resources Commission with the following members:

1.	Shri V. Ramachandran (Vice Chairman, Planning Board)	..	Chairman
2.	Shri R. Narayananan, .. (Chairman, Kerala Staate Electricity Board)	..	Member
3.	Shri M. Mohan kumar, Commissioner & Secretary (Finance	..	Member
4.	Dr. P.K. Gopalakrishnan Saw Mills Road, Koorkancherry, Thrissur.	..	Member
5.	Shri K.V. Nambiar, Secretary (Planning Board)	..	Member
6.	Shri P. Nandakumar, Associate Fellow, Centre for Development Studies, Thiruvananthapuram	..	Member
7.	Shri K.N. Kurup Chief, Economic Division State Planning Board.	..	Secretary

2. The terms of reference of the Commission will be as follows:

The Commission will study and make recommendations to the Government on all aspects of resources mobilisation including:

1. the tax potential, tax system and its administration in the State and measures to widen the tax base, increase tax revenues and restructuring of the existing systems with a view to accelerating the activities under core sectors like trade, commerce, industry, exports and agriculture;
2. the scope for increasing non-tax revenues in various sectors including education, health, forests, irrigation and water use;
3. returns from public enterprises and co-operatives;
4. recoveries of loans and advances;
5. mobilisation of resources from NRIs;
6. local and voluntary contributions for institutions, works and programmes;
7. other innovative methods of resource mobilisation; and
8. efficiency of resource use.

3. The term of the Commission will be six months from the date of this order. The Commission may submit reports on specific aspects of resource mobilisation and when it completes its work on them.

4. The Commission will have powers to call for such information as it requires from the various Departments of Government. The Secretaries to Government and Heads of Departments will render to the Commission such assistance as it may require in the discharge of its functions. The Commission may also obtain, if it so desires, the views of experts outside Government . It may also commission such studies as are considered necessary for its work. The Staff of the Finance Department/Centre State Finance Cell dealing with resources work will also be associated with thae Secretarial work of the Commission.

5. The Commission will be treated as Class I Committee for purposes of T.A. and D.A.

By order of the Governor,

S. Padmakumar,
Chief Secretary.

37/3054/MC.

Annexure II

ILLUSTRATIVE LIST OF STATE PUBLIC ENTERPRISES FOR RESTUCTURING OF EQUITY

1. Kerala State Industrial Enterprises Ltd. (H).

   (1) Kerala State Detergents and Chemicals Ltd.
   (2) Kerala State Drugs and Pharmaceuticals Ltd.
   (3) Kerala Soaps and Oils Ltd.
   (4) Kerala State Salicylates Chemicals Ltd.
   (5) Trivandrum Rubber Works Ltd.
   (6) Travancore Plywood Industries Ltd.

2. Kerala Small Industries Development Corporation Ltd.(H)*

   (1) Sidkel Televisions Ltd.
   (2) SIDCO Mohan Kerala Ltd.

3. Steel Industries Kerala Ltd.(H)

   (1) Steel and Industrial forgings Ltd.
   (2) Autokast Ltd.

4. Kerala State Electronics Development Corporation Ltd.(H)

   (1) Keltron Counters Ltd.
   (2) Keltron Electro Ceramics Ltd.
   (3) Keltron Crystals Ltd.
   (4) Keltron Magnetics Ltd.
   (5) Keltron Resistors Ltd.
   (6) Keltron Power Devics Ltd.
   (7) Keltron Rectifiers Ltd.
   (8) Keltron Component Complex Ltd.

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*Promotion work will be done by the Electronics Commission that is being formed.

5. Kerala Tourism Development Corporation Ltd.

6. Kerala Clays & Ceramics Products Ltd.

7. Kerala Special Refractories Ltd.

8. The Kerala Minerals & Metals Ltd.

9. Malbar Cements Ltd.

10. Kerala Agro Machinery Corporation Ltd.

11. Kerala State Construction Corporation Ltd.

12. Kerala Automobiles Ltd.

13. Meat Products of India Ltd.

14. The Plantation Corporation of Kerala Ltd.

15. State Farming Corporation of Kerala Ltd.

16. Foam Matings (India) Ltd.

27. The Chalakkudy Refractories Ltd.

18. Travancore-Cochin Chemicals Ltd.

19. The Metropolitan Engineering Company Ltd.

20. Kerala State Wood Industrial Ltd.

21. Kerala Construction Components Ltd.

22. Travancore Titanium Products Ltd.

23. United Electrical Industries Ltd.

24. Traco Cable Company Ltd.

25. Transformers & Electricals Kerala Ltd.

26. The Metal Industries Ltd.

27. Steel Complex Ltd.

28. Forest Industries (Travancore) Ltd.

29. Travancore Cements Ltd.

37/3054/MC.

Annexure III

SUMMARY SHEET GIVING REVENUE EXPENDITURE ON HIGHER EDUCATION AND THE COST RECOVERY

1. Total Non-plan Revenue Recurring Expenditure (1990-91) Rs. 9679.26 lakhs

2. Tuition fee charged and cost recovery:

	Degree				Post Graduate			
	Arts		Science		Arts		Science	
	Existing (1990-91)	Revised	Existing (1990-91)	Revised	Existing (1990-91)	Revised	Existing (1990-91)	Reviseed
(i) Recurring cost* per students (R -)	3050	3050	5420	5420	8720	8720	16020	16020
(ii) Tuition Fee (Rs.)	144	300	144	540	160	870	160	1600
(iii) Cost Recovery (%)	4.72	10.00	2.66	10.00	1.83	10.00	1.00	10.00

*Teaching cost (80 to 90%) plus cost on other staff overhead and recurring expenditure.

Note: Expenditure figures for 1990-91 have been assumed for working out the cost recovery for 1992-93 also

3. Special Fees:

	Existing (Rs.)	Revised (Rs.)
(i) Library:		
(a) Pre-Degree	4	25
(b) Degree		75
(c) Post Graduation		200
(ii) Laboratory:		
(a) Pre-Degree	10 per subject	50 per subject
(b) Degree	20+5 (sub)	250+60 (sub)
(c) Post-Graduation	90	500